



APPENDIX

TENNESSEE GAS PIPELINE
DIVISION OF TENNECO INC.

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April 29, 1983

To The Producer/Supplier Addressed In
The Transmittal Letter To Which
This Notice Letter Is Attached:

The purpose of this letter is to give formal notice to the producers/suppliers of Tennessee Gas Pipeline Company (Tennessee) of the emergency gas purchase policy which Tennessee will implement with respect to the purchase of natural gas under its contracts for gas supplies, commencing May 1, 1983. On April 29, 1983, at the Hyatt Regency Hotel in Houston, Texas, Tennessee presented a program for its producers/suppliers which described in detail the current and projected conditions in Tennessee's natural gas markets which necessitated the implementation of the emergency gas purchase policy, and which indicated the objectives which Tennessee believes will be accomplished by its implementation.

Tennessee is, and since late 1982 has been, confronted with an increasingly severe imbalance between the gas supplies deliverable to it under gas contracts with its producers/suppliers, and the ability of its markets to absorb natural gas at Tennessee's current price levels. Tennessee's gas markets have been progressively eroded by a combination of events and circumstances, including: an unexpected economic recession of unanticipated length and severity; the perverse effect of the pricing scheme of the Natural Gas Policy Act of 1978 (NGPA) on the pricing provisions in the majority of post NGPA contracts for

the wellhead purchase of natural gas, which were made in an environment of intense competition for gas supplies following a prolonged period of gas shortage and curtailment; a worldwide glut of crude oil resulting in a precipitous drop in the price of competing fuels; and an extremely mild 1982-1983 winter heating season in Tennessee's market areas. None of these events are matters over which Tennessee has any control, nor were they foreseen or foreseeable when the contracts between Tennessee and its producers/suppliers were entered into.

There is an immediate danger that unless Tennessee is able to substantially reduce the cost of its natural gas delivered to its customers, an even larger portion of Tennessee's market for natural gas will be lost, and that the market losses Tennessee has already sustained and will sustain will be permanent. In order to prevent further irretrievable market loss, and to commence to remedy the adverse market conditions now existing, Tennessee must act now to reduce the weighted average cost of its purchased gas and, in turn, the price of gas to its customers. Therefore, Tennessee will, beginning May 1, 1983, implement the emergency gas purchase policy set out below. Tennessee hereby gives notice that due to the unforeseen and severely adverse conditions described above which are expected to exist throughout 1983, 1984 and 1985, the provisions of any of its gas purchase contracts which are contrary to the emergency gas purchase policy set out below must be and therefore are suspended.

Tennessee's emergency gas purchase policy, which will be in force from May 1, 1983, consists of the following:

1. *Reduced Purchase Obligations:*

(a) For purposes of measuring volumes of gas which Tennessee is obligated to take or nonetheless pay for, such obligations shall be deemed to be the following:

(i) As to NGPA Section 108 gas and all casinghead gas, 100% of the minimum contract quantity provided for under the applicable contract;

(ii) As to NGPA Section 104, Section 105, Section 106 and Section 109 gas, and as to each vintage or subcategory of such gas, the lesser of 70% of Seller's Delivery Capacity of each category, vintage or subcategory of such gas, or the minimum contract quantity provided for under the applicable contract;

(iii) As to NGPA Section 102, Section 103 and Section 107 gas, including tight sands gas, deep gas and other incentive priced gas, the lesser of 50% of Seller's Delivery Capacity of each category of gas or the minimum contract quantity provided for under the applicable contract.

(b) For purposes hereof, "Seller's Delivery Capacity" shall mean Seller's delivery capacity as defined in each applicable contract, and shall be no greater than the determination as to such capacity last made and agreed to under the terms and procedures of such contract and in effect on the day before the effective date of Tennessee's emergency gas purchase policy, unless Tennessee thereafter agrees in writing with any producer on a higher level of Delivery Capacity and/or reserves. Seller's Delivery Capacity will be determined by NGPA pricing category and subcategory, and by vintage within each NGPA pricing category or subcategory where applicable.

(c) Tennessee will nominate from time to time the daily level of gas volumes it will take from each producer under each contract from each respective NGPA pricing category and subcategory, up to 100% of Seller's Delivery Capacity from each such category.

Initially, insofar as reasonably practicable, Tennessee intends to determine its level of nominations from each respective NGPA pricing category and subcategory by multiplying the percentage of Seller's Delivery Capacity specified below by a fraction, the numerator of which is the sum of Tennessee's nominations from all of its producers/suppliers and the denominator of which is the sum of the percentage levels prescribed below for all NGPA pricing categories and subcategories. The percentage levels of Seller's Delivery Capacity to be used in establishing Tennessee's nominations are:

(i) 100% of the minimum contract quantity provided for under the applicable contract for all NGPA Section 108 gas and casinghead gas;

(ii) 70% of Seller's Delivery Capacity for NGPA Section 104, Section 105, Section 106 and Section 109 gas, and for each vintage or subcategory of such gas; and

(iii) The lesser of the minimum contract quantity provided for under the applicable contract or 50% of Seller's Delivery Capacity for NGPA Section 102, Section 103 and Section 107 gas, including tight sands gas, deep gas and other incentive priced gas.

However, in no event will Tennessee nominate take levels for any NGPA Section 107 gas included within subparagraph (iii) above which is not subject to a currently exercisable market out, economic out or similar contractual clause in excess of 50% of Seller's Delivery Capacity of gas in such category unless Tennessee has previously made take or pay payments with respect to such gas which have not been made up. Tennessee will take ratably from all producers by NGPA pricing category, subcategory and vintage. The manner in which Tennessee intends initially to

nominate takes under this emergency gas purchase policy is illustrated by Appendix A.

(d) Paragraph 3 (c) notwithstanding, Tennessee intends to nominate take levels for various NGPA pricing categories of gas in such manner as to receive as quickly as possible make up gas attributable to take or pay payments made by Tennessee prior to the effective date of its emergency gas purchase policy. To meet these objectives, the level of takes nominated by Tennessee from time to time from any NGPA pricing category, subcategory or vintage, will be likely to differ from the level of takes nominated from any other NGPA pricing category, subcategory or vintage.

(e) Tennessee will notify its producers of its nominations of take levels as far in advance of the effective date of such nominations as practical. Pending receipt of notice from Tennessee of its initial level of nominations under the emergency gas purchase policy, each producer/supplier should maintain deliveries at the current volume level requested by Tennessee; however, each producer/supplier should immediately adjust its delivery mix among NGPA pricing categories so as to be in accord with the percentages set forth in paragraph 1 (a).

2. *Gas Pricing:*

(a) Concurrently herewith, Tennessee is providing separate notice to all producers whose contracts contain currently exercisable market out, economic out or similar clauses, that at the earliest date provided for and pursuant to the applicable clause, Tennessee will pay for volumes of gas taken under those contracts the lesser of the applicable NGPA maximum lawful price or \$3.40 per MMBtu inclusive of all severance taxes, gathering charges and other similar fees and charges.

(b) With respect to gas volumes taken under contracts which contain no currently exercisable market out, economic out or similar clause, effective May 1, 1983 Tennessee will pay no more than the applicable maximum lawful price or, if no maximum lawful price is applicable, 110% of the No. 2 fuel oil index as published monthly by the Federal Energy Regulatory Commission (FERC) pursuant to Section 203 of the NGPA inclusive of all severance taxes, gathering charges and similar fees and charges.

(c) Since Tennessee will be nominating the volumes of gas which it will take by NGPA pricing category, subcategory and vintage, Tennessee will tender payment for deliveries of gas to it, and recognize take or pay claims, based on volumes and prices calculated as if producers had delivered gas as nominated by Tennessee; deliveries of gas by any producer in excess of the total volumes nominated by Tennessee will be treated as excess gas in accordance with Tennessee's excess gas policy set out in its letter to producers dated March 23, 1983, a copy of which is attached hereto as Appendix B. In no event will Tennessee make payments for gas delivered, or recognize a take or pay obligation, based upon any price which exceeds the maximum lawful price applicable to the NGPA pricing category of gas actually delivered by a producer.

3. *Take or Pay Payments:*

(a) Tennessee will recognize, pursuant to the terms of applicable contracts, claims for sums validly due and owing under take or pay provisions of such contracts by producers who agree in writing to the amendment of such contracts consistent with Tennessee's emergency gas purchase policy; regardless of whether such claim arises out of contract years ending on, before or after the effective date of Tennes-

see's emergency gas purchase policy, Tennessee will not recognize any invoice for sums claimed under take or pay provisions of any contract which has not been so amended, and unless the producer/supplier provides assurance of either delivery of make-up of volumes of gas paid for but not taken, or refund of payments therefor, satisfactory to Tennessee.

(b) Subject to the provisions of subparagraph 3 (a), beginning January 1, 1983, Tennessee's recognition of an obligation to pay for volumes of gas not taken below minimum contract quantity shall be limited to the levels specified in paragraph 1 (a). Gas volume levels by which Tennessee's take or pay obligations are measured shall be as specified in the applicable contract for periods prior to January 1, 1983, and as specified in paragraph 1 from and after January 1, 1983 through the term of the emergency gas purchase policy, and thereafter as specified in the applicable contract.

(c) Tennessee shall have the right to take volumes of gas as make up for volumes paid for but not taken pursuant to Tennessee's recognized take or pay obligations under the applicable contract, as amended by Tennessee's emergency gas purchase policy, at any time during the primary term of the applicable contract; provided, however, that no volumes taken by Tennessee may be received as make up during any contract year until the then applicable minimum annual quantity for such contract year has been taken by Tennessee, and that in making up deficiencies in takes, deficiencies shall be deemed to be made up in the chronological order in which they occurred. If at the end of the primary term of the applicable contract, or if due to the depletion of the reserves of gas covered by the applicable contract or the occurrence of an event of force majeure which precludes the ability of the producer to deliver to Tennessee or for Ten-

nessee to receive make up volumes, Tennessee has not made up all deficiency volumes paid for but not taken under the provisions of the applicable contract, as amended by Tennessee's emergency gas purchase policy, the producer shall, within sixty (60) days of Tennessee's request, refund to Tennessee all payments previously made by Tennessee to the producer for the deficiency volumes which Tennessee has not made up.

4. *Release of Gas Reserves:*

(a) Tennessee will take no volumes of NGPA Section 107 gas, either tight sands gas, deep gas or other incentive-priced gas, under contracts which contain no currently exercisable market-out, economic out or similar clause, unless by May 26, 1983, the producer has agreed to amend the applicable contract consistent with Tennessee's emergency gas purchase policy. In the event such agreement is not received in Tennessee's Houston office by that date, Tennessee will cease taking such gas and deliver to the producer a release of all affected gas reserves from the provisions of the applicable contract, effective that date.

(b) Tennessee will, upon receipt prior to the earlier of the date on which the applicable market out, economic out or similar clause becomes exercisable by Tennessee or the termination of the emergency gas purchase policy, of a written request from a producer of NGPA Section 107 deep gas, tight sands gas or other Section 107 incentive priced gas, covered by a contract which contains no currently exercisable market out, economic out or similar clause and as to which the producer has agreed to an amendment consistent with Tennessee's emergency gas purchase policy, release such gas reserves from the provisions of the applicable contract.

(c) Upon the written request of any producer, Tennessee will consider the release of any non-NGPA

Section 107 gas reserves which are not committed or dedicated to interstate commerce under the terms and provisions of the Natural Gas Act, to the extent that the reduction in takes of gas from such reserves by Tennessee pursuant to its emergency gas purchase policy will demonstrably result in substantial and irreparable drainage of such producer's reserves by another producer, subject to Tennessee's reserved right to retain such gas reserves by agreeing to increase its purchases of such gas to a level which will avoid such drainage.

(d) The provisions of paragraphs 4 (a), (b) and (c) to the contrary notwithstanding, Tennessee will not release any gas or gas reserves under any contract with respect to which Tennessee has paid the producer for gas not taken, unless in its request for release of such gas or gas reserves the producer agrees to refund such prepayment to Tennessee.

(e) Tennessee will, to the extent of any available capacity in its pipeline system, transport released gas volumes on behalf of a producer/supplier to a mutually agreeable point or points, on an interruptible basis.

5. *Term:*

(a) Tennessee's emergency gas purchase policy shall be in effect from and after 12:01 a.m. Central Daylight Time on May 1, 1983, until 12:00 p.m. Central Standard Time on December 31, 1985.

(b) Should the events and circumstances which have necessitated the implementation of Tennessee's emergency gas purchase policy cease to exist, in Tennessee's judgment, prior to December 31, 1985, Tennessee shall promptly give written notice of the time and date of such cessation, and the time and date on which its emergency gas purchase policy shall no longer be in effect.

(c) Upon the termination of Tennessee's emergency gas purchase policies and procedures, the make up rights specified in paragraph 3 (c) shall continue to be applicable so long as gas purchase and sales operations are conducted between Tennessee and its producers pursuant to any contract affected by Tennessee's emergency gas purchase policy.

You may indicate your agreement to the amendment of the gas purchase and sales contract between you and Tennessee referenced on the transmittal letter to which this notice letter is attached, consistent with the terms and provisions of Tennessee's emergency gas purchase policy as set out in this letter, by filling out and signing the enclosed copy of the signature page of this letter in the space provided below and returning it to Tennessee. Should you prefer to so amend your gas purchase and sales contract with Tennessee in a more formal manner, Tennessee will provide a formal amendment document to you upon request.

Tennessee sincerely believes that implementation of its emergency gas purchase policy is the only course available in the light of, and during the continuation of, the current circumstances, and that the implementation of its emergency gas purchase policy will serve both to stop the loss of markets which Tennessee is now experiencing, and to increase Tennessee's sales levels. Tennessee submits that this result is in your best interest, and urgently solicits your agreement, cooperation and assistance. Tennessee's implementation of its emergency gas purchase policy is not, however, dependent upon the agreement of its producers/suppliers, and will commence in all events on May 1, 1983.

Questions concerning Tennessee's emergency gas purchase policy should be directed to Mr. T. M. Matthews, Vice President, Tennessee Gas Transmission Company,

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P. O. Box 2511, Houston, Texas 77001, Telephone (713)
757-3871.

Very truly yours,

TENNESSEE GAS PIPELINE
COMPANY,
A DIVISION OF TENNECO INC.

By /s/ T. M. Matthews
T. M. MATTHEWS
Agent and Attorney-in-Fact